



Annual Report

NASD
National Association
Of Securities Dealers, Inc.

*Investor Protection and Quality Markets
... Our Commitment Continues*

1988 NASD ANNUAL REPORT



The National Association of Securities Dealers, Inc., is the not-for-profit, self-regulatory organization for NASDAQ and the over-the-counter securities market. More than 6,400 broker-dealers — or virtually all U.S. firms that do securities business with the public — belong to the NASD. Member firms agree to abide by NASD rules as a condition of membership. More than 457,000 employees of these firms are registered with the NASD.

For the benefit of investors, NASDAQ companies, and NASD member firms, the NASD works to foster efficient domestic and international financial markets. The NASD pursues these goals through its self-regulatory activities and the activities of its subsidiary organizations — NASDAQ, Inc., NASD Market Services, Inc., and NASDAQ International, Ltd.

True to the spirit of self-regulation, the NASD is governed by a member-controlled Board of Governors. Through a nationwide system of committees, the NASD conducts peer reviews of members' actions, develops rules and regulations, and designs new services for the market.

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1988 KEY FACTS AND FIGURES

- The NASD's 6,432 member firms operate 22,714 branches and employ more than 457,000 registered persons.
- Share volume of 31.1 billion shares makes 1988 NASDAQ's second best year ever. The NASDAQ Composite Index rises 15.4 percent in 1988, outperforming other major U.S. equity market indexes.
- NASDAQ becomes the first securities market to be granted full legal status as an overseas Recognized Investment Exchange by the British Department of Trade and Industry.
- The NASD and the North American Securities Administrators Association reach an agreement, subsequently endorsed by the Securities and Exchange Commission (SEC), that paves the way for parity of treatment of NASDAQ/National Market System issues under state blue-sky laws.
- Ohio and Iowa enact legislation exempting NASDAQ/NMS securities under their blue-sky laws. California adopts legislation that enables NASDAQ to pursue an exemption from registration requirements for NASDAQ/NMS issues.
- The NASD adopts new affirmative obligation requirements for market makers, enabling NASDAQ to better serve the needs of small investors.
- The number of market makers per NASDAQ security jumps from 7.5 to 9.4, a 25 percent increase in one year.
- The SEC approves an NASD rule proposal that requires NASDAQ companies to report material news to the NASD before releasing it to the news services. Another approved proposal empowers the NASD to impose trading halts while material news is disseminated.
- At the urging of the NASD, the SEC adopts Rule 10b-21 to prevent the practice of covering short sales with stock acquired via a secondary offering.
- To enhance its ability to regulate the non-NASDAQ OTC market, the NASD implements a rule requiring members to electronically report price and volume information for these securities on a daily basis.
- To help customers select the firms and individuals with whom they do business, the NASD fills 6,700 requests for background information from investors about member firms and registered employees.

In 1989, the NASD celebrates its 50th anniversary — five decades of facilitating capital formation in the public and private sectors by providing quality services, domestically and internationally, to investors, issuers, and members.

During 1988, the eve of this milestone event, much was achieved to prepare the NASD and the NASDAQ stock market for the years ahead. Regulatory programs to protect investors were strengthened. Far-reaching changes to improve the quality of our markets were implemented. New and expanded services for both U.S. and overseas participants in our markets were developed. Toward these ends, the reports of our Regulatory Review Task Force and Quality of Markets Committee made important contributions to our work.

Strengthening Regulatory Programs

Today, our regulatory and enforcement programs are stronger than ever. A number of major disciplinary actions were successfully completed in 1988. These resulted from our own initiatives and from joint efforts with state regulators, the Securities and Exchange Commission (SEC), the Federal Bureau of Investigation (FBI), and the U.S. Attorney's Office.

At the same time, the scope and quality of our regulatory programs were enhanced in many areas — from the regulation of government securities to non-

NASDAQ over-the-counter stocks.

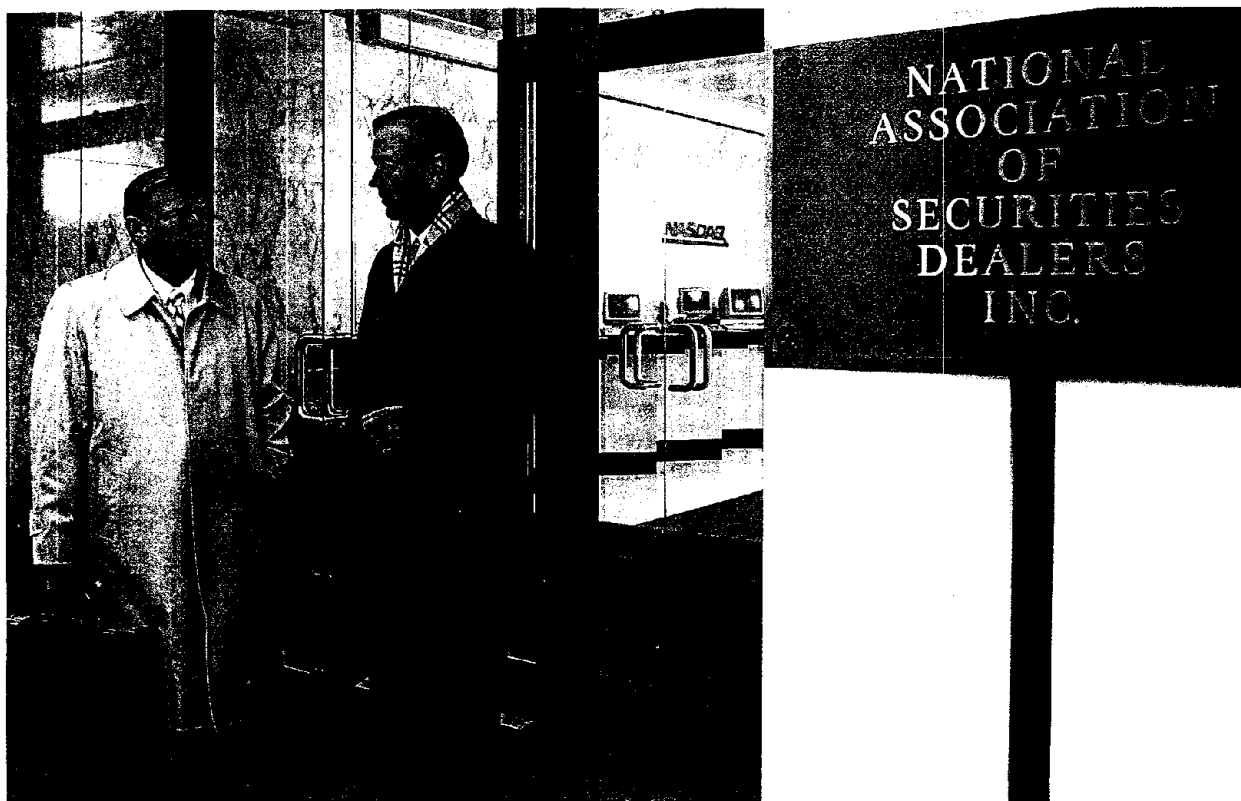
To increase deterrents to market abuses, ceilings on fines that can be imposed by the NASD were eliminated, and more extensive information about enforcement cases is being made public. Disciplinary information about member firms and registered persons is now available to investors so they can make better informed decisions about the firms and individuals with whom they do business.

In 1988, the short-sale rules for the NASDAQ stock market were tightened considerably. At the urging of the NASD, the SEC adopted a new rule that prohibits the practice of covering short sales with stock that is acquired through a public offering.

Protecting Investors Remains a Priority

To protect investors and facilitate effective market making, the NASD sought and received authority to impose trading halts while companies disseminate material news. Greater use of automation in our surveillance and field examination programs increased our capacity to address improper sales and trading practices.

The arbitration program conducted for public investors and member firms was revised in several important respects. We expedited processing of claims, imposed more exacting criteria for those who serve as arbitrators, and proposed greater public disclosure of arbitrators' decisions.



Stephen L. Hammerman (left), 1988 NASD Chairman, and Joseph R. Hardiman, NASD President and Chief Executive Officer.

Improving Market Quality and Capacity

During the year, the NASDAQ market became more efficient as its capacity to perform under all market conditions improved. Most importantly, the commitment of NASDAQ market makers to make continuous markets was substantially increased through new affirmative obligation rules. Direct communication between market participants has been enhanced through a variety of automated systems that replace the telephone with the computer.

These advances, coupled with a limit-order service launched in early 1989, give investors significantly greater access to — and opportunities in — the NASDAQ stock market.

Reflecting these improvements and their increased commitment to the NASDAQ market, market-maker participation grew to a record 9.4 market makers per security. The NASDAQ market today has more market makers making more markets at narrower spreads than at any time in its history. We greatly appreciate the support our market-making members provided as we worked our way through these changes.

In the area of clearance and settlement, substantial improvements have been made to our comparison transaction capacity, which is key to an efficient settlement process. By the end of 1989, we expect to achieve same-

CHAIRMAN'S AND PRESIDENT'S REPORT

day comparison for the vast majority of NASDAQ trades and next-day comparison for all trades.

Recognizing the quality of the NASDAQ market, several more states exempted NASDAQ National Market System (NASDAQ/NMS) securities from their registration requirements.

In a significant development, the NASD and the North American Securities Administrators Association entered into a Memorandum of Understanding that establishes uniform standards for a marketplace exemption for NASDAQ/NMS securities from state blue-sky laws. That agreement, which was endorsed by the SEC, should serve as a springboard for obtaining additional exemptions from state registration requirements for securities in NASDAQ/NMS.

Expanding Globally

The NASD broadened its foundation for increased worldwide regulatory cooperation and expanded services during 1988. In April, the NASDAQ stock market became the first foreign market to be granted the status of an overseas Recognized Investment Exchange by the British Department of Trade and Industry. NASD members based in the United Kingdom can now access NASDAQ services, make markets, and execute orders as if they themselves were located in the U.S.

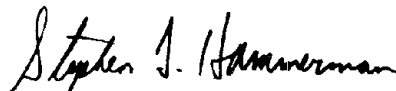
Spurred by the internationalization of markets and cooperation between NASDAQ and London's Inter-

national Stock Exchange, the NASD reached an accord with The Securities Association in the United Kingdom to share regulatory information across the Atlantic.

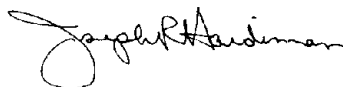
Potentially an important effort on the international front is the development of a NASDAQ-like system for global trading by qualified investors of certain unregistered securities of major companies. Called PORTAL, the system will facilitate transactions in different currencies, provide low-cost international clearance and settlement, and enhance access to the vast market for secondary issues.

Our Continuing Commitment

Over the past 50 years, the NASD has been committed to facilitating capital formation in the public and private sectors by providing investors, issuers, and members with primary and secondary securities markets that are not only well regulated but innovative and rewarding. Today, that commitment is stronger than ever.



Stephen L. Hammerman
1988 Chairman



Joseph R. Hardiman
*President and
Chief Executive Officer*



The NASD's Quality of Markets Committee, chaired by former SEC Commissioner Irving Pollack, completed a comprehensive study in 1988 of many of the structural and quality-of-market issues brought to the fore by the events of October 1987.

QUALITY MARKETS

Since the October 1987 market break, the NASD has made a number of far-reaching changes to enhance NASDAQ market quality. The result: a market with greater depth and liquidity, improved services, better regulation, and increased credibility.

In implementing these changes, the NASD benefited from the work of its Quality of Markets Committee. Established as a special committee of the NASD's Regulatory Review Task Force, the committee concluded a major study of the NASDAQ market in 1988. In its report, the committee offered recommendations to ensure that the NASDAQ market's structure and systems meet and anticipate investor needs in an increasingly sophisticated market environment.

The following were among the recommendations:

- Upgrading the NASDAQ market's back-up facility to "hot standby" status. This would permit immediate system-wide operations if the primary mainframes were to become disabled.
- Adopting higher qualification standards for NASDAQ National Market System (NASDAQ/NMS) securities.

- Raising capital requirements for market makers and other securities firms.

- Creating a NASDAQ International list of world-class securities.

- Increasing rulemaking in the short-sale area, including the requirement that mandatory buy-ins of short sellers be for guaranteed delivery.

- Asking Congress to sponsor a comprehensive study of today's securities markets and their ability to serve the capital formation process.

The vast majority of the committee's recommendations have been incorporated into action programs — both under way and planned — to further strengthen the NASDAQ market.

Market Continuity And Investor Access

Of all of the changes made in the NASDAQ market during the past year, one of the most important involves the systems and procedures for handling customer orders of 1,000 shares or less. Chief among these are new affirmative obligations that mandate participation by NASDAQ/NMS market makers in the NASD's automated Small Order Execution System (SOES). These new requirements increase the financial commitment of market makers to the NASDAQ market and impose significant economic penalties on any market maker that withdraws from the system. SOES is now better able to meet the needs of the small investor,

even during periods of extremely heavy trading.

For the benefit of investors, a new limit-order service for the NASDAQ market was launched in January 1989. The service accepts and holds customers' orders and good-till-cancelled orders for 1,000 shares or less, executing these orders whenever the best bid or ask price in an issue is equal to or better than the limit-order price. The limit-order service, which gives additional depth and liquidity to the NASDAQ market, provides investors with greater flexibility and control in managing their investment portfolios.

New Automated Market Services

To improve market efficiency, the NASD introduced two new member services in 1988. Both automate much of the order-entry, execution, and post-execution process, yet allow for dealer judgment and participation on larger trades. These systems, which bypass the telephone, increasingly make NASDAQ a market of direct computer-to-computer communications between participants.

The Order Confirmation Transaction service extends the capability for computer-to-computer trades from those covered by the small order system to the full range of transactions in NASDAQ. Through the use of this service, a firm can send an order of any size and for any account to a specific market maker over its NASDAQ terminal, without using the telephone. The

market-making firm responds electronically by accepting, rejecting, or countering the order with new terms.

ACES, the Advanced Computerized Execution System, is an order-routing and execution system that gives NASD members with NASDAQ service the ability to participate in an automated trading system. Through ACES, a member can direct its customer orders in specific securities for specified amounts to any designated ACES market maker with which it has established business arrangements. The designated market maker automatically executes all orders received at the best prices in NASDAQ at the time they are entered in ACES.

Both of these services, like SOES, produce what are known as locked-in trades. That is, the transactions executed via these services are automatically reported to NASDAQ for dissemination over the NASDAQ network and to the clearing corporation for prompt settlement.

Another new service — Automated Confirmation Transaction (ACT) — is slated for start-up in 1989. ACT will enable parties on either side of a telephone-negotiated trade to avail themselves of the same locked-in trade features of the NASDAQ market execution services. By the end of 1989, ACT is expected to result in same-day comparison of about 90 percent of NASDAQ trades and next-day comparison for substantially all NASDAQ trades.

Higher Standards For NASDAQ/NMS Securities

In 1988, the NASD and the North American Securities Administrators Association (NASAA) reached an agreement that paves the way for the parity of treatment of NASDAQ/NMS and exchange-listed securities under state blue-sky laws. The agreement establishes a model uniform marketplace exemption and must be acted upon by an individual state before it becomes effective in it.

The agreement, which the SEC endorsed, sets forth both quantitative and qualitative criteria that a company must meet to qualify. For example, to meet the qualitative standards, NASDAQ/NMS companies must have, among other things, independent directors and audit committees, and they must make periodic reports to shareholders. The quantitative standards, approved by the SEC in early 1989, meet or exceed the listing standards of the American Stock Exchange in every area.

In 1988, Ohio and Iowa joined a growing number of states that have granted NASDAQ/NMS issues blue-sky exemptions. In addition, California took a major first step by enacting legislation that permits the NASD to make application for the exemption under that state's blue-sky laws. Also, Illinois adopted legislation that authorizes the state securities commissioner to exempt NASDAQ/NMS securities by rule.



New and improved automated systems for the NASDAQ market provide investors with more efficient services — from order entry and execution to clearance and settlement.

Dealing With Market Emergencies

To deal with the potential of future market breaks and thereby bolster investor confidence, the NASD recommended a series of initiatives to Congress and the Securities and Exchange Commission.

Although the NASD agreed to halt trading in NASDAQ and the over-the-counter equity markets at the request of the SEC whenever certain predetermined, arbitrary formulas are exceeded, the NASD Board, supported by a recommendation of its Quality of Markets Committee, concluded that more permanent solutions that improve rather than restrict market access should be explored. The recommendations offered by the NASD were that:

- Congress should vest regulatory authority for all equity derivative instruments in the SEC.
- Congress should give the SEC authority to oversee the establishment of prudential or maintenance margin requirements by self-regulatory organizations for all equity instruments. Relative margin levels for all equities and equity derivative instruments should be consistent across all marketplaces.
- The clearing, the settlement, and the payment systems should be



Set for launch in 1989, the NASD's new electronic bulletin board will provide member firms and investors with access to current quotation information for thousands of non-NASDAQ, over-the-counter securities.

coordinated across marketplaces to reduce financial risk for all market participants.

- An intermarket policy group of senior management personnel from the self-regulatory organizations should be formed to plan, communicate, and coordinate with each other in various areas of market operations and to work closely with federal regulators to formulate contingency plans for market emergencies.

Facilitating Capital Formation

At the urging of the NASD, the SEC adopted a rule to prevent persons from using securities purchased out of a public offering to cover short sales executed after the filing of a registration statement. The rule applies to all NASDAQ and exchange-listed issues underwritten on a firm-commitment basis.

Adoption of SEC Rule 10b-21 eliminates a practice that disadvantaged issuers and their existing shareholders. By "shorting into a secondary," sellers could drive the offering price of a new issue lower and thereafter cover those sales out of the offering without the normal risk of covering in the open market. The result deprived issuers of the offering proceeds they would

have otherwise realized had the market not been subject to this form of short-selling pressure.

Material News Dissemination and Trading Halts

To deter insider trading, the NASD received SEC approval of its proposal to require NASDAQ companies to notify the NASD of material news before releasing it to the news services. In a related development, the NASD received SEC approval to halt trading in an issue while material news is being disseminated. These rules give individual and institutional investors equal opportunity to evaluate material information and consider it in making their buy, sell, and hold decisions.

When imposed by the NASD, trading halts normally last about 30 minutes after the material news has been disseminated.

New NASDAQ Company Services

In 1988, the NASD launched an electronic communications service to provide NASDAQ companies with on-line access to information about activity in their stocks. The NASDAQ Information Exchange System (NIEX), the only system of its kind, gives companies access to current and historical trading data including high, low, and closing prices; inside quotations and volume data, including block activity identified by market maker; cumulative volume figures by market

maker; monthly short-interest positions; and an electronic mail service for two-way communication with NASDAQ. This service has been installed in 150 NASDAQ companies.

In 1988, the NASD made major improvements in its publications for NASDAQ companies. *NASDAQ Notes*, a monthly newsletter, was redesigned and expanded with the addition of several new features. Also, a new quarterly publication designed to help NASDAQ companies improve their investor relations program was introduced.

Improving Other Markets

NASD efforts to improve market quality are not limited to NASDAQ. In 1988, for example, the NASD requested SEC approval of an electronic bulletin board service for the display of price quotations and indications of interest by market makers in non-NASDAQ OTC securities. The proposed electronic bulletin board will bring new visibility and order to this large and heterogeneous market with thousands of stocks.

Set for start-up in 1989, the bulletin board service will display firm and nonfirm price quotations, unpriced indications of interest, and the telephone numbers of participating market makers, all of which will be retrievable on a real-time basis. A major development for the OTC market, the bulletin board service will be of substantial benefit to investors, issuers, and dealers in these securities.

INVESTOR PROTECTION

For markets to effectively serve investors and the companies whose securities are traded in them, they must be well regulated. No market, large or small, can perform its economic functions if the process is not fair and equitable or if the disclosures to assure investor confidence are absent or misleading.

For almost a half century, the principal business of the NASD has been regulation of its members. This the NASD accomplishes by "corrective" regulation, which is carried out through enforcement and discipline, and by "preventative" regulation, which is achieved through education and communication.

Regulatory Review Task Force

In 1988, the NASD strengthened its regulatory programs for the protection of investors. The cornerstone of these efforts lies in the work of the NASD's Regulatory Review Task Force.

On the basis of a comprehensive, 11-month study of the NASD's regulatory policies, practices, and procedures, the task force reported that the NASD's principal regulatory programs are "soundly managed and comprehensive in scope."

To broaden these programs and to make the NASD more effective as a self-regulatory organization, it suggested a number of actions.

- Developing uniform industry

standards to help prevent misuse of material, nonpublic information.

- Expediting release of material news by NASDAQ companies to reduce opportunities for illicit insider trading.

- Enhancing automated surveillance programs to isolate more quickly trading patterns indicating possible price manipulation or misuse of material, nonpublic information.

- Requiring the electronic submission of regulatory information by member firms to speed the investigative process.

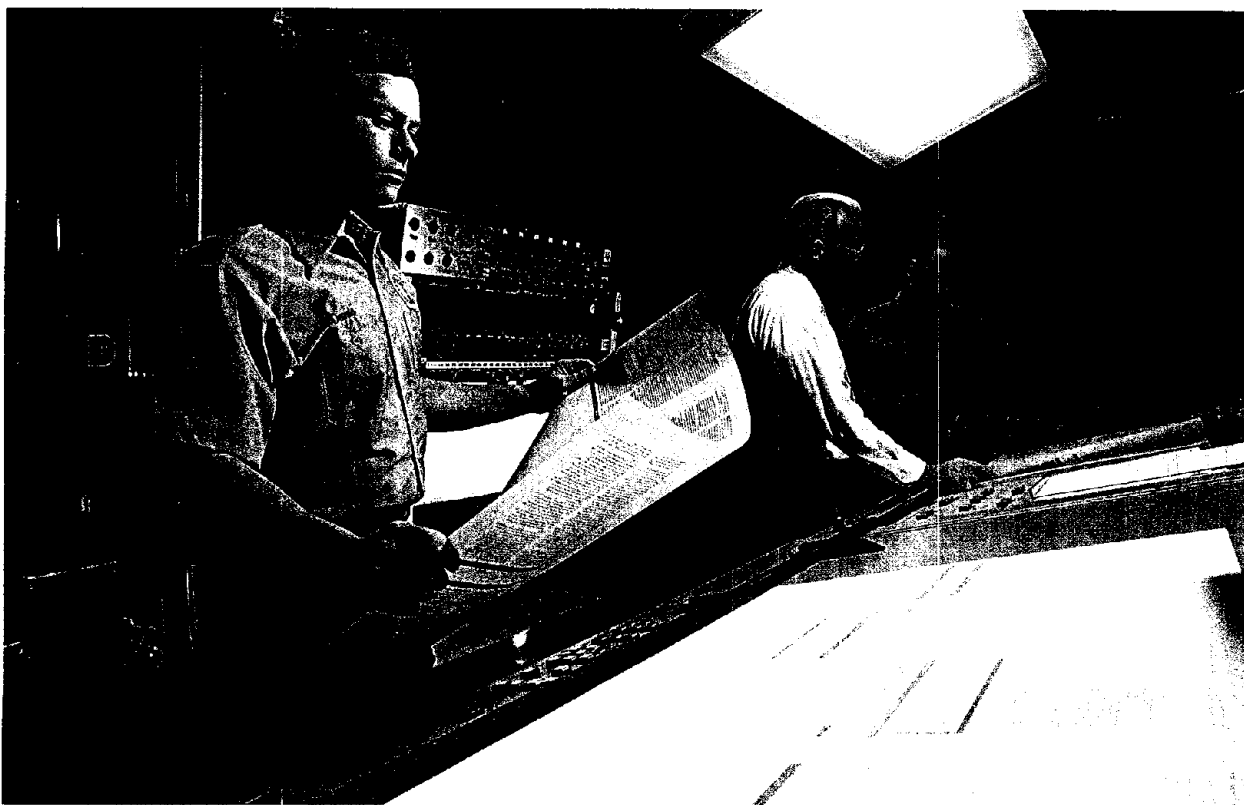
- Abolishing limits on fines that may be imposed on NASD disciplinary proceedings.

- Expediting referrals of certain matters to state authorities for possible criminal prosecutions.

- Providing a vehicle for public access to pertinent disciplinary information about brokers with whom investors may do business.

- Promoting greater sharing of technological advances and access to regulatory data to enhance the efficiency and effectiveness of regulatory programs administered by the self-regulatory organizations, the SEC, the state securities regulators, and others.

- Intensifying efforts to detect questionable sales and trading practices — such as churning, unsuitable transactions, and manipulation — through routine examinations, closer scrutiny of arbitration awards, and automated surveillance of trading in non-NASDAQ over-the-counter securities.



To provide useful information in easy reading formats, major improvements were made in 1988 to virtually all of the publications and newsletters that the NASD produces for members and NASDAQ companies.

- Encouraging member firms to develop contingency plans that provide for extreme surges in customer activity and for emergency sources of capital for the firm.

All of the task force's recommendations have either been implemented or are being considered by the appropriate standing committees of the Board of Governors.

Disciplining Members

The NASD announced a number of major cases involving significant penalties in 1988, evidencing a clear, get-tough policy for those who fail to follow the rules. During the past year, the NASD continued to work closely with the SEC, states, FBI, and U.S. Attorney's Office on a variety of cases, several of which led to NASD enforcement cases and could result in criminal actions for insider trading and penny-stock fraud.

In a related development, the NASD received SEC approval in 1988 to eliminate the \$15,000 ceiling on fines for rule violations. With the fine ceiling removed, the NASD can craft more effective remedial sanctions in cases that involve serious violations of the NASD's rules and federal securities laws.



Major upgrades are being made to the hardware, automated systems, and computer models used by the NASD's Market Surveillance Department to monitor securities trading in NASDAQ and the over-the-counter securities markets.

Disclosures to Investors

To provide investors with more complete background information on those with whom they entrust their funds and securities, in 1988 the NASD expanded the disclosures it makes of the disciplinary histories of its member firms and their brokers.

Under the new policy, the NASD discloses information regarding past and present affiliations of brokers, as well as criminal convictions and final disciplinary actions taken by federal and state agencies, the NASD, and other self-regulatory agencies.

To obtain the information, an investor merely completes a disclosure request form available from any NASD office.

Improved Market Surveillance Capabilities

In 1988, the NASD turned to more advanced computer technology to support its ongoing market surveillance activities. To evaluate its existing systems, the NASD retained a team of consultants, from Peat Marwick/Nolan Norton, who conducted a six-month study. Two Nobel laureates in economics assisted the team.

Following the evaluation, professors from Pennsylvania State University designed a new Stock-watch system for the NASDAQ market. Generic price and volume parameters built into the current system are being replaced by parameters specifically tailored to each individual security based on its historical behavior pattern.

The system will combine these parameters with industry indicators, market indicators, and breaking news to calculate the likelihood that each price quotation and each trade report reflects legitimate market forces. The new system will produce fewer but more significant parameter breaks by flagging those trades or quotations that appear improbable.

Other automated tools to be used by the NASD's market surveillance analysts include:

- **Incident Tracking System**, which collects and stores news, data from trading, parameter breaks, and other information.

- **Computerized news data system**, which stores news about each NASDAQ security via feeds from news agencies.

- **A Market Surveillance Workstation**, which displays the information needed by analysts on a single screen.

Transaction-Reporting System Facilitates Surveillance

In 1988, the NASD launched an automated "blue sheet" reporting system. By participating in the sys-

tem, members can respond electronically to standardized market surveillance or "blue sheet" requests for trading information. The system reduces the time needed by the NASD to conduct investigations and helps member firms expedite their responses to information requests.

The NASD also developed an automated surveillance capability to monitor trading in non-NASDAQ over-the-counter stocks. Under rules approved by the SEC in 1988, market makers are required to make daily reports to the NASD by electronic means of transaction data in "pink sheet" stocks. Reports are triggered whenever the total daily purchases and sales in any such issue exceed 50,000 shares or \$10,000.

In conjunction with this reporting, the NASD developed an automated Market Surveillance System to generate computerized regulatory exception reports for use in detecting fraudulent pricing and markups, manipulation, and other trading/sales abuses.

Comprehensive Supervision Rules Adopted

Believing that self-regulation begins with the member itself, the NASD adopted a comprehensive package of rules that require each firm to establish procedures and assign responsibility to designated individuals as a basis for effective supervision over the activities of its employees. The new rules expand

on prior requirements in this area by obligating each firm to:

- Designate a registered principal to supervise each business activity of the member.
- Assign each registered person to a supervisor.
- Designate and report to the NASD the names of those persons who will review the firm's supervisory practices and procedures, and either take or recommend to senior management appropriate action to achieve member compliance with applicable rules and regulations.
- Meet with each registered representative at least annually to discuss compliance matters relevant to the activities of that representative.
- Establish a schedule for examining branch offices that accounts for the nature of the activity, volume of business, and number of persons at each office.

The new rules become effective in April 1989 to give firms the lead time to comply.

Arbitration Program Enhanced And Streamlined

The NASD offers an arbitration program as an impartial, speedy, and inexpensive alternative to litigation. In 1988, the NASD responded to increased investor demand for its arbitration services by enlarging its administrative staff and by adding a new arbitration office in Fort Lauderdale, Florida.

To expedite the arbitration

process, particularly small claims, and to improve the perception of fairness to all participants, the NASD filed with the SEC proposals for the following:

- More exacting criteria for the selection of public arbitrators.
- Exchange of documents before hearings to streamline procedures.
- Dissemination to the public of information about the awards made by arbitrators.

Regulation Through Education

The NASD operates a comprehensive communication program to keep NASD members informed of regulatory developments.

In addition to printing periodic reports and studies, the NASD publishes several member newsletters: *Notices to Members*, recently consolidated into a monthly publication; the *Executive Digest*, which, in addition to recapping significant Board items, now includes news of a general nature; and the *Regulatory and Compliance Alert*, introduced in 1988 to help NASD members avoid violations by acquainting them with new rules, interpretations, and other regulatory developments.

District membership meetings also aid member education. Held annually, these meetings feature discussion on a wide variety of subjects to promote awareness and understanding of new and changing regulatory requirements and market systems.



NASDAQ is the first foreign market granted status by the British government as an overseas Recognized Investment Exchange. That gives NASDAQ the same status in the United Kingdom as London's stock exchange.

INTERNATIONAL AGENDA

The NASD's mission of providing quality markets and investor protection is broad in scope. It extends beyond the U.S. to wherever NASDAQ companies look to raise capital or broaden their shareholder base and wherever NASD members do business. As a result, the NASD has an active international agenda designed to attract overseas investors and companies to the NASDAQ market, provide access for U.S. investors and NASDAQ companies to overseas markets, and foster cooperation with other international markets and regulatory bodies through an exchange of trade data and other information.

Establishing Market Linkages

From its beginning, NASDAQ's modern, screen-based alternative to exchange-floor trading has been the object of international attention and imitation. Markets in London and Singapore developed automated trading systems modeled after NASDAQ. Recently, the Japan Securities Dealers Association announced its intention to automate Japan's over-the-counter market along NASDAQ lines.



Two out of every three listed overseas securities that trade in the form of American Depositary Receipts are listed on NASDAQ. These NASDAQ ADR companies, whose products are shown above, include Jaguar, Toyota Motor, Cadbury Schweppes, LVMH Moët Hennessey Louis Vuitton, Waterford Glass, Canon, and Fuji Photo Film.

The NASD has encouraged these developments and has been instrumental in establishing international linkages between these automated markets. The NASDAQ communications link with its counterpart SEAQ (Stock Exchange Automated Quotations) system in London, operational since April 1986, currently includes quotations and transaction information on about 700 securities.

A trans-Pacific link between NASDAQ and the SESDAQ (Stock Exchange of Singapore Dealing and Automated Quotations) became fully operational in March 1988, with a daily exchange of quotations on 35 NASDAQ securities traded in both markets.

Another First for NASDAQ

In April, the British Department of Trade and Industry granted NASDAQ full legal standing as an overseas Recognized Investment Exchange, making NASDAQ the first overseas market to gain such status. U.K.-based members of the NASD are authorized to conduct transactions in the NASDAQ market under investor protection standards that are deemed equivalent to those of London's International Stock Exchange.

Full NASDAQ services are now available in the United Kingdom. This means U.K.-based securities dealers that are NASD members can compete for international order flow in NASDAQ stocks with U.S. dealers by entering bids and offers directly into the NASDAQ System.

Likewise, U.K.-based members holding customer orders for NASDAQ securities can enter those orders directly over their NASDAQ terminals.

Global Regulatory Cooperation Continues

The NASD continues to work closely with regulators in other parts of the world, particularly in the United Kingdom. The NASD and The Securities Association (TSA) of the U.K. are exchanging information about the registered securities personnel in their respective regulatory systems.

TSA has been given instant on-line access to NASD records of persons active in the U.S. securities industry who wish to work with a TSA-registered firm in the U.K. Similarly, the NASD can scrutinize the backgrounds of securities professionals in the U.K. who apply for registration in the United States.

In August, the NASD — along with the SEC and other U.S. and U.K. regulatory and self-regulatory organizations — entered into a memorandum of understanding with the British Securities and Investments Board. This agreement

provides for the exchange of financial information and material pertaining to the operational soundness of U.S. firms operating in the U.K. and of U.K. firms operating in the U.S.

A similar agreement to exchange regulatory information and to coordinate on matters such as questionable trading and other surveillance matters was signed with the Stock Exchange of Singapore.

New System for Trading Unregistered International Securities

The NASD is actively exploring the development and effective regulation of equity markets beyond NASDAQ and its linkages.

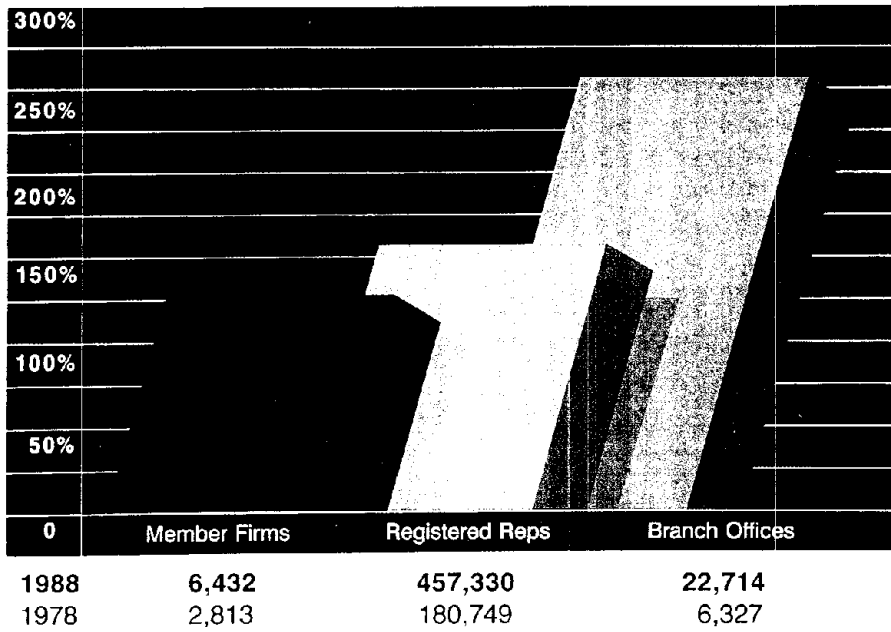
Considerable progress has been made toward the realization of a NASDAQ-like system for the trading of unregistered, world-class international securities. Only an idea in 1987, the PORTAL system (Private Offerings, Resales, and Trading through Automated Linkages) is nearing implementation.

PORTAL has the potential to bring order and efficiency to a large, rapidly growing but currently fragmented private placement market. Its advantages include:

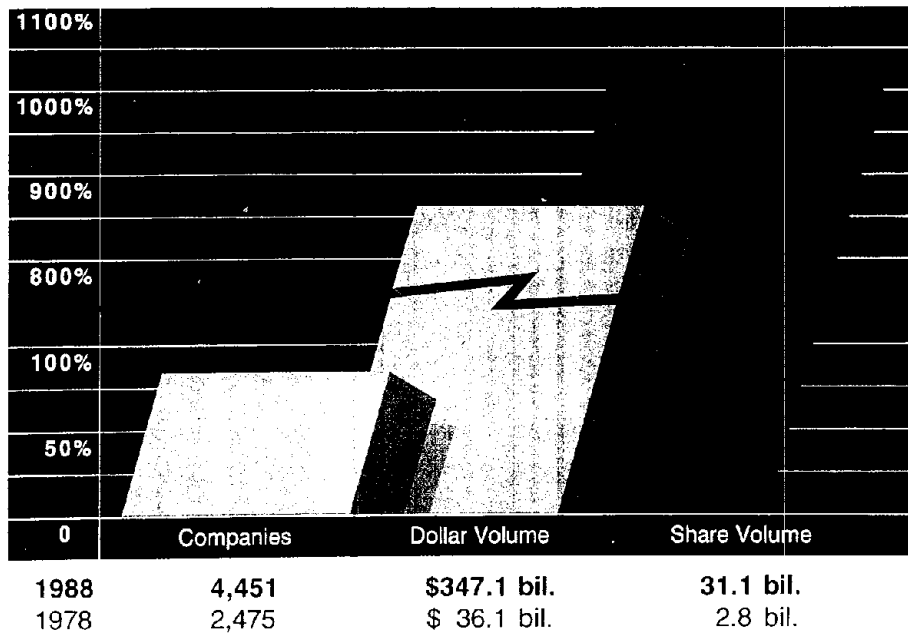
- Fully automated trading support.
- Efficient clearance and settlement.
- Locked-in transactions on both sides.
- Multicurrency quotations, confirmation, and settlement.

TEN YEAR GROWTH

NASD



NASDAQ



INVESTOR PROTECTION HIGHLIGHTS

■ The NASD's 14 district offices conduct 4,472 examinations of members' main and branch offices and resolve 5,319 customer complaints.

■ As a result of 937 formal disciplinary actions ordered, the NASD's District Business Conduct Committees render 560 disciplinary decisions and accept 286 settlement offers. These actions lead to the expulsion of 11 firms, the barring of 158 individuals, and the suspension of five firms and 112 individuals.

■ The NASD's automated market surveillance of NASDAQ trading triggers 17,680 on-line price and volume alerts, which lead to 270 formal investigations and the referral of 107 cases to the Securities and Exchange Commission.

■ The Market Surveillance Committee orders major disciplinary actions for market-related violations and imposes suspensions and fines totaling more than \$800,000.

■ The Advertising Department reviews 30,022 pieces of advertising and sales literature; 49 percent require revisions to comply with applicable standards.

■ The Corporate Financing Department reviews the underwriting terms of 2,194 corporate equity, debt, real estate investment trust, and direct participation program offerings with an aggregate volume of \$114.5 billion. These reviews result in the issuance of 300 no-objection letters, requests for more information in 1,583 cases, and letters objecting to the terms in 246 cases.

■ Public customers, member firms, and associated persons file 3,990 arbitration claims with the NASD, a 38 percent increase from the number of 1987 claims. Claimants seek an aggregate of \$1.6 billion in relief. The NASD closes 2,169 cases, a 33.6 percent increase from 1987.

■ The Surveillance Department supervises the self-liquidation of 11 firms and the distribution of \$237 million to customers and broker-dealers.

■ The Qualifications Department administers 227,365 tests to persons seeking to become NASD registered representatives or principals.



NASD Board of Governors — To Serve Until January 1989

Seated left to right:

JOSEPH R. HARDIMAN
*NASD President and
 Chief Executive Officer*
 Washington, D.C.

JOSEPH V. MISSETT, III
 Oppenheimer & Co., Incorporated
 New York, New York

LYNN P. REITNOUER
 Crowell, Weedon & Co.
 Los Angeles, California

Standing left to right:

*STEPHEN L. HAMMERMAN
 Merrill Lynch & Company, Inc.
 New York, New York
NASD Chairman, 1988

ALLEN WEINTRAUB
 Advest, Inc.
 Hartford, Connecticut
NASD Vice Chairman-Finance, 1988

JUDITH G. BELASH
 Goldman, Sachs & Co.
 New York, New York

RICHARD L. HINTON
 Campbell, Waterman Inc.
 Seattle, Washington
NASD Vice Chairman, 1988

VICTOR ELTING, III
 The Chicago Corporation
 Chicago, Illinois

DAVID L. BAKER
 Baker & Co., Incorporated
 Cleveland, Ohio

*GEORGE PUTNAM
 The Putnam Funds
 Boston, Massachusetts

*THOMAS C. SULLIVAN
 RPM, Inc.
 Medina, Ohio

**Governor-at-Large*



NASD Board of Governors — To Serve Until January 1990

Seated left to right:

*JOHN G. MCDONALD
Graduate School of Business
Stanford University
Stanford, California
NASD Vice Chairman, 1989

*GRAHAM W. WHITEHEAD
Jaguar Cars, Inc.
Leonia, New Jersey

HOWARD L. BLUM, JR.
Ladenburg, Thalman & Co. Inc.
New York, New York

B.H. RUTLEDGE MOORE
Interstate/Johnson Lane
Savannah, Georgia

Standing left to right:

RUDOLPH C. SANDER
Janney Montgomery Scott Inc.
Philadelphia, Pennsylvania

*DAVID HUGH FITZWILLIAM-LAY
G.T. Management (Japan) Limited
London, England

CHARLES H. SYMINGTON, JR.
S.G. Warburg & Companies Inc.
New York, New York
NASD Vice Chairman - Finance, 1989

WILLIAM L. TEDFORD, JR.
Stephens, Inc.
Little Rock, Arkansas
NASD Chairman, 1989

WILLIAM R. TIMKEN
Hambrecht & Quist, Inc.
San Francisco, California

JAMES F. PECK
Wyoming Financial Securities, Inc.
Casper, Wyoming*

**Governor-at-Large*



NASD Board of Governors — To Serve Until January 1991

Seated left to right:

*JOHN E. PEARSON
Northwestern National Life
Insurance Company
Minneapolis, Minnesota

*ROBERT H. MUNDHEIM
University of Pennsylvania
Law School
Philadelphia, Pennsylvania

H. MICHAEL COLLINS
Rice, Hall, James & Associates
San Diego, California

DANIEL J. CRISTOFANO
Ernst & Company
New York, New York

SHELDON M. FECHTOR
Fechtor, Detwiler & Co., Inc.
Boston, Massachusetts

Standing left to right:

*ALAN F. SHUGART
Seagate Technology
Scotts Valley, California

KENNETH J. WESSELS
Wessels, Arnold & Henderson, L.P.
Minneapolis, Minnesota

DON A. BUCHHOLZ
Southwest Securities, Inc.
Dallas, Texas

PATRICK C. RYAN
Johnston, Lemon & Co.
Incorporated
Washington, D.C.

RONALD E. BUESINGER
A.G. Edwards & Sons, Inc.
St. Louis, Missouri

**Governor-at-Large*

1988 NATIONAL COMMITTEES

The National Committees make recommendations to the Board of Governors on their areas of expertise. Members are appointed by the Board. The Executive, Finance & Audit, and National Business Conduct Committees meet before each Board meeting; other committees meet as needed. Special ad hoc committees and task forces are created throughout the year when important issues are to be considered.

Executive Committee

*Stephen L. Hammerman, *Chairman*, *Judith G. Belash, *Richard L. Hinton, *Joseph V. Missett, III, *Lynn P. Reitnouer, *Thomas C. Sullivan, *William L. Tedford, Jr., *Allen Weintraub, *Joseph R. Hardiman, *President*

Finance & Audit Committee

*Allen Weintraub, *Chairman*, *David L. Baker, *Howard L. Blum, Jr., *Victor Elting, III, *Stephen L. Hammerman, *Richard L. Hinton, *James F. Peck, *George Putnam, *Charles H. Symington, Jr., *Joseph R. Hardiman, *President*

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National Nominating Committee

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Arbitration Committee

Richard C. Romano, *Chairman*, *Judith G. Belash, Thomas W. Borden, Michael Dobin, David W. Hunter, Justin P. Klein, Robert I. Kleinberg, David Lipton, Peter K. Loeb, John S. Lutz, *B.H. Rutledge Moore, Anthony R. Pierno, David L. Sandborg, James C. Stone, III, Charles E. Zivney

Board Surveillance Committee

Peter C. Barnes, J. Philip Boesel, Jr., Edmund J. Cashman, Jr., David C. Grove, Larry D. Hayden, John G. Higgins, John B. Levert, Jr., William B. Madden, Bernard L. Madoff, Leonard Mayer, Glenn R. Oxner, L.C. Petersen, Alfred J. Rauschman, Sr., *Lynn P. Reitnouer, *Rudolph C. Sander, Carl P. Sherr, James C. Stone, III, William R. Timken

Capital & Margin Committee

*Victor Elting, III, *Chairman*, *Don A. Buchholz, *Daniel J. Cristofano, Vincent Fay, Robert Ferrentino, *Richard L. Hinton, Nelson S. Kibler, Donald Malawsky, Michael J. Passarella, Kenneth W. Pegher

Corporate Advisory Board

*Thomas C. Sullivan, *Chairman*, Jeffrey H. Coors, Peter A. Fischer, Preston B. Heller, Jr., Raymond A. Mueller, Christopher J. Murphy, III, Roy H. Park, Sr., Robert D. Ray, Albert F. Sloan, Frank Stronach, William R. Thomas, *Graham W. Whitehead, Frank Wobst

Corporate Financing Committee

*Joseph V. Missett, III, *Chairman*, *Howard L. Blum, Jr., Edmund J. Cashman, Jr., James M. Davin, Bruce S. Foerster, Richard Franyo, James S. Frazer, III, William J. Grant, Jr., Van Zandt Hawn, John Kohl, *B.H. Rutledge Moore, G. Peter O'Brien, Norman Pessin, John J. Stockbridge, Sabin C. Streeter, *Charles H. Symington, Jr., Gregory H. Thomas

*Member, NASD Board of Governors

1988 NATIONAL COMMITTEES

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Larry D. Hayden, *Chairman*, Joseph W. Armbrust, Jr., *Don A. Buchholz, Philip S. Cottone, Burton Glazov, Rosalie Y. Goldberg, John J. Graham, James A. Kaval, Steven K. McGinnis, Howard R. Moskof, *James F. Peck, Robert A. Stanger, *William L. Tedford, Jr., William Turchyn, Jr., Thell Michael Woods, Charles E. Zivney

Financial Communications and Investor Relations

Irving B. Schoenberg, *Chairman*, William J. Amdall, Susanne G. Clark, Valoree E. Dowell, John H. Grunewald, F. Trent Hill, James W. Jarrett, Charles E. Jones, Jr., James A. Kirkpatrick, William B. Lynn, Theodore H. Pincus, David E. Sparks, *William R. Thomas, Philip J. Keuper (Ex Officio)

Insurance Committee

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International Committee

James M. Davin, *Chairman*, *Judith G. Belash, Douglas A. Campbell, Peter J. DaPuzzo, Michael Dritz, *David Hugh FitzWilliam-Lay, Thomas Giandoreggio, Alex Hammond-Chambers, Russell M. Leiman, Bernard L. Madoff, *John G. McDonald, *Joseph V. Missett, III, *Robert H. Mundheim, *George Putnam, *Charles H. Symington, Jr., John N. Tognino, *Allen Weintraub, *Kenneth J. Wessels, *Graham W. Whitehead

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1988 NATIONAL COMMITTEES

Options Committee

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SOES Users Committee

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State Regulation Committee

Alfred J. Rauschman, Sr., *Chairman*, Raymond Aronson, *Don A. Buchholz, *Daniel J. Cristofano, William Finnegan, Conrad Goodkind, Francesca M. Maher, Orestes J. Mihaly, *Lynn P. Reitnouer, David E. Rosedahl, *William R. Timken

Trading Committee

Victor Wright, *Chairman*, Phillip C. Allen, *David L. Baker, J. Patrick Campbell, Ralph J. Costanza, Peter J. DaPuzzo, Peter T. Dartley, Austin H. George, John C. Giesea, Arthur Kontos, Frank Masi, Charles Neustein, *Patrick C. Ryan, *Thomas C. Sullivan, John N. Tognino

Uniform Practice Committee

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Variable Contracts Committee

John M. Smith, *Chairman*, Stephen W. Adams, Robert E. Carlson, Tarrant Cutler, Timothy E. Murphy, Cynthia M. Orcutt, *John E. Pearson, Peter W. Rea, Joseph M. Rob, Robert G. Sharp

Limit Order Task Force

Norman T. Wilde, Jr., *Chairman*, *David L. Baker, *Ronald E. Buesinger, Peter J. DaPuzzo, *Sheldon M. Fechter, John T. Johnson, Patrick Kolenick, *Patrick C. Ryan, *Thomas C. Sullivan, *William L. Tedford, Jr., John N. Tognino, *Allen Weintraub, Victor Wright

*Member, NASD Board of Governors

1988 DISTRICT COMMITTEES

Members of the District Committees serve on Business Conduct Committees to review reports of NASD examiners, investigate complaints against members, conduct disciplinary proceedings, and impose penalties for violations of federal and state laws, Municipal Securities Rulemaking Board rules, and the NASD's Rules of Fair Practice. The members are elected by NASD member firms in each geographic area and supervise NASD programs in that area. The chairmen of the committees comprise the Advisory Council of the Board of Governors.



District 1
Alaska,
Idaho,
Montana,
Oregon,
and
Washington;

176 members, 1,253
branches

Robert L. Sheeran,
Chairman, Merrill Lynch,
Pierce, Fenner & Smith,
Incorporated,
Seattle, Washington

Eldon J. Wicklund, Vice
Chairman, Smith Barney,
Harris, Upham & Co.,
Eugene, Oregon

Arthur W. Buerk,
Shurgard Capital Group,
Seattle, Washington

William W. Gallagher,
Gallagher Capital Corp.,
Portland, Oregon

Larry P. Morris, Dean
Witter Reynolds Inc.,
Bellevue, Washington

Robert J. Mortell, Jr.,
Cable Howse & Fagen,
Seattle, Washington

Charles H. Putney,
PaineWebber, Inc.,
Portland, Oregon

C. Fred Roed, Piper,
Jaffray & Hopwood, Inc.,
Seattle, Washington

John G. Woodhead,
Phelps & Woodhead, Inc.,
Spokane, Washington

Bradford M. Patterson,
Director, One Union
Square, 600 University,
Suite 1911, Seattle,
Washington 98101-3132



District 2
California, Nevada, and
Hawaii; 913 members, 3,560
branches

Fredric M. Roberts,
Co-Chairman, F.M.
Roberts & Company, Inc.,
Los Angeles, California

Charles B. Johnson,
Co-Chairman, Franklin
Distributors, Inc.,
San Mateo, California

Douglas M. McKnight,
Vice Chairman, Dean Witter
Reynolds, Inc.,
La Jolla, California

Earl E. Alexander,
Lord Abbett & Co.,
San Francisco, California

David L. Allard, Christopher
Weil & Company, Inc.,
Monterey, California

Robert Basso, Broadcourt
Capital Corporation,
San Francisco, California

Alan E. Goldstein,
E.F. Hutton & Co., Inc.,
Los Angeles, California

Neil Hennessey,
PaineWebber, Inc.,
Sacramento, California

Carl Lindros, Santa
Barbara Securities, Inc.,
Santa Barbara, California

John D. Mackey,
Henry F. Swift & Co.,
San Francisco, California

Trevor M. Morris, Seidler
Amdec Securities, Inc.,
Los Angeles, California

David P. Murphy, Smith
Barney, Harris Upham &
Co., Los Angeles, California

John J. Sanders,
Robertson, Colman &
Stephens,
San Francisco, California

Arnold Seidel, Morton
Seidel & Company Inc.,
Los Angeles, California

John S. Simmers,
Financial Network
Investment Corporation,
Torrance, California

Samuel M. Yates,
Sutro & Co., Inc.,
San Francisco, California

Kye Hellmers, Director,
300 South Grand Avenue,
16th Floor,
Los Angeles, California
90017

Theodore F. Schmidt,
Director, 425 California
Street, Room 400,
San Francisco, California
94104

1988 DISTRICT COMMITTEES



District 3
Arizona,
Colorado,
New
Mexico,
Utah, and
Wyoming;

345 members, 1,373
branches

Douglas B. Reeves,
Chairman, Reeves and
Company Investments &
Securities, Inc.,
Cheyenne, Wyoming

George N. Donnelly, Vice
Chairman, Hanifen, Imhoff
Securities Corp.,
Denver, Colorado

Paul N. Davis,
Wilson-Davis & Co.,
Salt Lake City, Utah

David R. Dove, Smith
Barney, Harris Upham &
Co., Incorporated,
Scottsdale, Arizona

Dennis C. Dowd,
John G. Kinnard and
Company, Incorporated,
Englewood, Colorado

Robert A. Fitzner, Jr.,
RAF Financial Corporation,
Denver, Colorado

David Nelson, Covey &
Company, Inc.,
Salt Lake City, Utah

J. Phillip Oelze, Dean
Witter Reynolds Inc.,
Scottsdale, Arizona

Anthony Petrelli, Neidiger,
Tucker Bruner, Inc.,
Denver, Colorado

Forrest D. Smith, Merrill
Lynch, Pierce, Fenner &
Smith, Inc.,
Albuquerque, New Mexico

Frank J. Birgfeld, Director,
1401 17th Street, Suite 700,
Denver, Colorado 80202



District 4
Kansas,
Missouri,
Nebraska,
and
Oklahoma;
211 mem-

bers, 1,189 branches

Rodney O. McWhinney,
Chairman, Waddell & Reed,
Inc., Kansas City, Missouri

Robert L. Schaeffer, Vice
Chairman, The Columbian
Securities Corporation,
Topeka, Kansas

Douglas C. Black, B.C.
Christopher Securities Co.,
Kansas City, Missouri

Quinton H. Ellis, Jr.,
Merrill Lynch, Pierce,
Fenner & Smith, Inc.,
Oklahoma City, Oklahoma

John S. Ellspermann,
Kidder, Peabody & Co.
Incorporated,
Kansas City, Missouri

Norman E. Heitner, Jr.,
The Heitner Corporation,
St. Louis, Missouri

Lamar S. Jones, Kirkpatrick,
Pettis, Smith, Polian Inc.,
Omaha, Nebraska

Leonard L. Noah,
LM Consolidated
Financial Corp.,
Kansas City, Missouri

Peter J. O'Neal, Newhard,
Cook & Co., Incorporated,
St. Louis, Missouri

John M. Phelan,
Edward D. Jones & Co.,
Maryland Heights, Missouri

Stephen S. Soden, BMA
Financial Services, Inc.,
Westwood, Kansas

Jack Rosenfield, Director,
120 W. 12th Street,
Suite 900,
Kansas City, Missouri 64105



District 5
Alabama,
Arkansas,
Louisiana,
Mississippi,
and
western

Tennessee; 190 members,
894 branches

William T. (Dale)
Patterson, Chairman,
Morgan Keegan &
Company, Inc.,
Jackson, Mississippi

George M. Wood, Jr.,
Vice Chairman, George M.
Wood & Company,
Montgomery, Alabama

Robert W. Bass, Dean
Witter Reynolds Inc.,
Little Rock, Arkansas

W. Warren Belser, Jr.,
Sterne, Agee & Leach, Inc.,
Birmingham, Alabama

Henry M. Fyfe, Municipal
Securities, Inc.,
Memphis, Tennessee

Thomas V. Harkins,
T.J. Raney & Sons, Inc.,
Little Rock, Arkansas

Colin A.P. (Pat) McNease,
PaineWebber, Incorporated,
Jackson, Mississippi

T. Eugene Newton,
Shearson Lehman Hutton
Inc., New Orleans, Louisiana

James L. Vining,
Vining-Sparks Securities,
Inc., Memphis, Tennessee

Warren A. Butler, Jr.,
Director, Energy Centre,
Suite 850, 1100 Poydras
Street, New Orleans,
Louisiana 70163

1988 DISTRICT COMMITTEES



District 6
Texas; 427
members,
1,283
branches

Phillip E. Nichol,
Chairman, Dean Witter
Reynolds Inc.,
Amarillo, Texas

Tullis C. Thomas, II,
Vice Chairman, Prudential
Bache Securities,
San Antonio, Texas

Gary Littlepage, Advantage
Capital Corporation,
Houston, Texas

Thomas K. Mercer,
ISC Securities, Inc.,
Houston, Texas

Vernon Minton, V.F. Minton
Securities, Inc.,
Fort Worth, Texas

R. Theodore Moock, Jr.,
Eppler Guerin & Turner, Inc.,
Dallas, Texas

Richard D. Niemann,
Shearson Lehman Hutton
Inc., Corpus Christi, Texas

David Powell, Rauscher
Pierce Fetsnes, Inc.,
Dallas, Texas

Michael Wadsworth,
Masterson & Company,
Houston, Texas

Peter M. Walker, Director,
Olympia & York Tower, 1999
Bryan Street, Suite 1450,
Dallas, Texas 75201



District 7
Florida,
Georgia,
South
Carolina,
eastern
Tennessee,
Puerto Rico, Canal Zone,
and the Virgin Islands; 590
members, 2,826 branches

John R. Smith, Jr.,
Chairman, Lowry Financial
Services Corp.,
North Palm Beach, Florida

Patrick E. Mann, Vice
Chairman, H.G. Nix Inc.,
Tampa, Florida

Robert J. Glenn, Robinson
Humphrey Company, Inc.,
Atlanta, Georgia

Edward D. Hill,
J.C. Bradford & Co.,
Nashville, Tennessee

John B. Keeble, III, FSC
Securities Corporation,
Atlanta, Georgia

Hector M. Mayol, Jr., First
Boston Corporation,
Hato Rey, Puerto Rico

Bernard F. Puckhaber,
Interstate/Johnson Lane,
Charleston, South Carolina

Arch W. Roberts,
Arch W. Roberts & Co.,
Gainesville, Florida

Robert J. Stemmerman,
Merrill Lynch, Pierce,
Fenner & Smith, Inc.,
Sarasota, Florida

S. Bennett Whipple,
Vice President, Director,
One Securities Centre,
Suite 500, 3490 Piedmont
Road, NE, Atlanta, Georgia
30305



District 8
Illinois,
Indiana,
Iowa,
Michigan,
Minnesota,
North
Dakota, South Dakota, and
Wisconsin; 809 members,
3,944 branches

Gerald A. Horwitz,
Chairman, Horwitz,
Schakner & Associates,
Inc., Skokie, Illinois

John L. Burbidge,
Vice Chairman,
IDS Financial Services,
Minneapolis, Minnesota

F. Scott Brown,
K.J. Brown & Company,
Inc., Muncie, Indiana

Robert M. Chambers,
Stifel, Nicolaus, & Company,
Inc., Des Moines, Iowa

Richard L. Davis, Kidder,
Peabody & Co., Inc.,
Milwaukee, Wisconsin

Larry J. Hoffman, Blunt
Ellis & Loewi Incorporated,
Milwaukee, Wisconsin

Richard D. Lauer, Mesirow
Investment Services, Inc.,
Sioux Falls, South Dakota

Peter S. Logan, Sr., Roney
& Co., Detroit, Michigan

Scott E. Martin, Van
Kampen Merritt, Inc.,
Lisle, Illinois

Henry I. Montgomery,
Planners Financial Services,
Inc., Minneapolis, Minnesota

James F. Mooney, Dean
Witter Reynolds Inc.,
Detroit, Michigan

Richard E. Neal, City
Securities Corporation,
Indianapolis, Indiana

Andrew B. Neely, The
Illinois Company,
Chicago, Illinois

Milton A. Newton,
Columbian Securities, Inc.,
Chicago, Illinois

George H. Shelton, Howe,
Barnes & Johnson, Inc.,
Chicago, Illinois

E. Craig Dearborn,
Director, Three First
National Plaza, Suite 1680,
Chicago, Illinois 60602

1988 DISTRICT COMMITTEES



District 9
Kentucky and Ohio;
173
members,
1,146
branches

Michael P. Saracusa,
Chairman,
McDonald & Company
Securities, Inc.,
Cleveland, Ohio

Margaret M. Wehmeyer,
Vice Chairman, Gradison &
Company, Inc.,
Cincinnati, Ohio

Bruce Avedon, Carillon
Investment, Inc.,
Cincinnati, Ohio

Thomas J. Blank,
Provident Securities and
Investment Company,
Cincinnati, Ohio

James A. Francis,
The Ohio Company,
Columbus, Ohio

Marc H. Morgenstern,
Equity Realty Securities Co.,
Cleveland, Ohio

Darrell A. Patrick, S.J.
Wolfe & Co., Dayton, Ohio

Rudy L. Vincenti,
J.C. Bradford & Co.,
Incorporated,
Louisville, Kentucky

Michael T. Welsh, Prescott,
Ball & Turben, Inc.,
Westlake, Ohio

William H. Jackson, Jr.,
Director, 1940 East 6th
Street, 5th Floor,
Cleveland, Ohio 44114



District 10
District of
Columbia,
Maryland,
North
Carolina,
and

Virginia; 273 members,
1,221 branches

Joseph J. Roberts,
Chairman, Folger Nolan
Fleming Douglas Inc.,
Baltimore, Maryland

Benjamin T. Vernon, *Vice*
Chairman, Dean Witter
Reynolds Inc.,
Charlotte, North Carolina

C. Alexandra Armstrong,
Alexandra Armstrong
Associates, Inc.,
Washington, DC

Philip E. Blevins, Merrill
Lynch, Pierce, Fenner &
Smith, Inc., Washington, DC

James E. Brucki, Jr.,
Interstate/Johnson Lane,
Charlotte, North Carolina

Robert W. Corby, Robert
W. Corby & Co., Inc.,
Washington, DC

William B. Lucas, Wheat,
First Securities Inc.,
Richmond, Virginia

William R. Rothe, Alex.
Brown & Sons Incorporated,
Baltimore, Maryland

Norman B. Schrott, A.G.
Edwards & Sons, Inc.,
Alexandria, Virginia

Randall N. Smith, DeRand
Investment Corporation of
America, Arlington, Virginia

Donald P. Whitley,
PaineWebber Incorporated,
Richmond, Virginia

Thomas P. Forde, *Director,*
1735 K Street NW, 12th
Floor, Washington, DC
20006



District 11
Delaware,
Pennsyl-
vania, *West*
Virginia,
and New
Jersey,

except for counties adjacent
to New York City; 400
members, 1,285 branches

Roger L. Dietz, *Chairman,*
Janney Montgomery
Scott Inc.,
West Chester, Pennsylvania

Gordon E. Wright, *Vice*
Chairman, W.H. Newbold's
Son & Co., Inc.,
Philadelphia, Pennsylvania

McBee Butcher,
Butcher & Singer Inc.,
Philadelphia, Pennsylvania

Joseph F. Huber, First
Boston Corporation,
Philadelphia, Pennsylvania

Michael D. Kinsella,
Hopper Soliday & Co., Inc.,
Philadelphia, Pennsylvania

Thomas Lynch, IV,
Richards, Lynch &
Pegher, Inc.,
Pittsburgh, Pennsylvania

Richard B. Meyer, Scheetz,
Smith & Co., Incorporated,
Pittsburgh, Pennsylvania

Sal L. Monastero, Dean
Witter Reynolds Inc.,
Philadelphia, Pennsylvania

Edmond N. Moriarty, Jr.,
Merrill Lynch, Pierce,
Fenner & Smith,
Incorporated,
Morristown, New Jersey

Richard M. O'Brien,
Parker/Hunter Incorporated,
Pittsburgh, Pennsylvania

Jacob B. Petrosky,
Prudential-Bache
Securities, Inc.,
Philadelphia, Pennsylvania

Frank T. Salera, Janney
Montgomery Scott Inc.,
Philadelphia, Pennsylvania

John P. Nocella, *Director,*
1818 Market Street, 14th
Floor, Philadelphia,
Pennsylvania 19103

1988 DISTRICT COMMITTEES



District 12
New York
City with
the
adjacent
New York
and New

Jersey counties; 1,378
members, 1,070 branches

Leopold Swergold,
Chairman, Swergold,
Chefitz & Sinsabaugh,
New York, New York

James Hagoney, Vice
Chairman, Nash Weiss &
Co., New York, New York

Dominick F. Antonelli,
Roosevelt & Cross, Inc.,
New York, New York

Andrew L. Berger,
Wertheim Schroder & Co.,
Incorporated,
New York, New York

John J. Caffrey, Financial
Clearing and Services
Corp., New York, New York

Marjorie E. Gross,
Bankers Trust Company,
New York, New York

Edward E. Hill,
The Mutual Life Insurance
Company of New York,
Teaneck, New Jersey

M. David Hyman,
Bear, Stearns & Co.,
New York, New York

William Karsh,
Graystone Nash, Inc.,
Livingston, New Jersey

Hugh P. Lowenstein,
Donaldson Lufkin & Jenrette
Securities Corporation,
New York, New York

Gerald P. McBride,
Prudential-Bache Securities,
Inc., New York, New York

Peter B. Madoff,
Bernard L. Madoff
Investment Securities
New York, New York

Michael Minikes,
Bear, Stearns & Co.,
New York, New York

Edward W. Niemiec,
The Travelers
New York, New York

Alfred Reeves, Turcan
Financial Group, Inc.,
Rye, New York

Robert W. Spira,
Chapdelaine Securities Inc.,
New York, New York

Timothy M. Steel,
Cazenove Inc.,
New York, New York

William S. Clendenin,
Vice President, Director,
NASD Financial Center,
33 Whitehall Street,
New York, New York 10004



District 13
Connecticut,
Maine,
Massa-
chusetts,
New
Hampshire,

Rhode Island, Vermont, and
New York, except for New
York City and the adjacent
counties; 547 members,
1,507 branches

Edward J. Hughes,
Chairman, Fechter,
Detwiler & Co.,
Boston, Massachusetts

Robert L. Butler, Vice
Chairman, Phoenix
Equity Planning,
Hartford, Connecticut

Brenda P. Angeline,
Cheevers, Hand & Angeline,
Inc., Endicott, New York

Richard F. Carolan,
Carolan & Company, Inc.,
Providence, Rhode Island

William F. Devin, Fidelity
Brokerage Services, Inc.,
Boston, Massachusetts

Fred J. Franklin,
Mutual Benefit Financial
Service Company,
Providence, Rhode Island

Richard F. Greene,
Merrill Lynch, Pierce,
Fenner & Smith, Inc.,
Boston, Massachusetts

Cynthia M. Orcutt,
Sun Investment Services
Company,
Wellesley Hills,
Massachusetts

Gerald H. Powers,
Cantella & Co., Inc.,
Boston, Massachusetts

William H. Richardson,
Trubee Collins & Co.,
Buffalo, New York

Gary D. Walters,
Kidder, Peabody & Co.,
Boston, Massachusetts

Robert D. Watral,
Quick & Reilly, Inc.,
Boston, Massachusetts

Willis H. Riccio, Vice
President, Director, 260
Franklin Street, 20th Floor,
Boston, Massachusetts
02110

CONSOLIDATED FINANCIAL STATEMENTS

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

CONSOLIDATED BALANCE SHEETS

<i>September 30 (in thousands)</i>	1988	1987
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,540	\$ 3,941
Investments, principally U.S. government securities, at cost (approximate market value of \$84,390 in 1988 and \$81,343 in 1987)	85,003	82,713
Receivables and other current assets	8,510	8,985
Total current assets	100,053	95,639
Property and equipment		
Land, buildings, and improvements	29,821	29,608
Data processing, subscriber equipment, and software	65,079	56,533
Furniture, equipment, and leasehold improvements	24,295	15,467
	119,195	101,608
Less accumulated depreciation and amortization	46,760	35,860
	72,435	65,748
Other assets	2,621	3,640
	\$175,109	\$165,027
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 11,130	\$ 15,399
Deferred income and deposits	11,235	11,013
Current portion of obligations under capital leases	1,956	1,818
Total current liabilities	24,321	28,230
Obligations under capital leases	5,027	5,912
Other liabilities	7,569	4,863
Total liabilities	36,917	39,005
Equity	138,192	126,022
	\$175,109	\$165,027

See notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

CONSOLIDATED STATEMENTS OF INCOME AND EQUITY

<i>Year Ended September 30 (in thousands)</i>	1988	1987
INCOME		
Market information service fees	\$ 58,311	\$ 52,854
Member assessments	35,278	25,702
Registration and examination fees	28,362	30,801
Interest and other	17,359	15,068
NASDAQ issuers fees	12,317	13,283
Corporate finance fees	4,400	7,069
	156,027	144,777
EXPENSES		
Salaries and employee benefits	71,171	63,763
Professional and other services	16,778	14,412
Equipment maintenance and data communications	15,535	12,910
Office expense	12,291	10,052
Depreciation and amortization	11,634	10,363
Travel and meetings	6,277	6,028
Publications, supplies, and postage	6,160	6,196
Other	2,186	2,172
	142,032	125,896
Income before provision for income taxes	13,995	18,881
Provision for income taxes	1,825	3,065
Net income	12,170	15,816
Equity at beginning of year	126,022	110,206
Equity at end of year	\$138,192	\$126,022

See notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Year Ended September 30 (in thousands)</i>	1988	1987
OPERATING ACTIVITIES		
Cash received from fees and assessments	\$149,678	\$139,272
Interest received from investments	8,304	7,727
Cash paid to employees and for other operating expenses	(131,825)	(110,712)
Income taxes paid	(2,043)	(3,471)
Interest paid	(521)	(459)
Net cash provided by operating activities	23,593	32,357
INVESTING ACTIVITIES		
Proceeds from sales and redemptions of investments	31,783	49,411
Purchases of investments	(34,538)	(55,768)
Purchases of property and equipment	(16,319)	(32,200)
Net cash used in investing activities	(19,074)	(38,557)
FINANCING ACTIVITIES		
Principal payments on obligations under capital leases	(1,920)	(1,136)
Net cash used in financing activities	(1,920)	(1,136)
Increase (decrease) in cash and cash equivalents	2,599	(7,336)
Cash and cash equivalents at beginning of year	3,941	11,277
Cash and cash equivalents at end of year	\$ 6,540	\$ 3,941
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income	\$ 12,170	\$ 15,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,635	10,363
(Decrease) increase in accounts payable and accrued expenses	(2,853)	3,387
Amortization of premiums on investments	812	1,084
Increase in deferred income and deposits	562	972
Loss on sale of property and equipment	218	224
Decrease (increase) in receivables	258	(259)
Increase in other liabilities	1,384	770
Increase in other assets	(593)	
Net cash provided by operating activities	\$ 23,593	\$ 32,357

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Business Segments: The consolidated financial statements include the accounts of the National Association of Securities Dealers, Inc. (NASD), and its wholly owned subsidiaries, including NASDAQ, Inc., and NASD Market Services, Inc. (MSI), after elimination of all significant intercompany transactions. The consolidated financial statements have been prepared on the accrual basis of accounting and conform to generally accepted accounting principles.

NASD is a membership association established to regulate the NASDAQ and over-the-counter securities market. NASDAQ, Inc., owns and operates the domestic and international electronic NASDAQ quote information system. MSI provides national market facilities to assist NASD in carrying out its regulatory responsibilities and for the benefit of NASD members in their pursuit of efficient execution of securities transactions.

Cash and Cash Equivalents: Cash and cash equivalents include demand cash and all investments purchased with a remaining maturity of three months or less.

Property and Equipment, Depreciation, and Amortization: Property and equipment are recorded at cost. Equipment acquired under capital leases is recorded at the lower of fair market value or the present value of future lease payments. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the period of the applicable lease.

Software Costs: Purchased software, developed by others, is capitalized if it has a continuing value and is considered an integral part of purchased hardware. All other software development costs are charged to expense as incurred.

Income Taxes: NASD and NASDAQ, Inc., are tax-exempt, not-for-profit organizations. MSI is a taxable entity and recognizes certain expenses, principally pension expenditures and depreciation, in different periods for income tax purposes than for financial reporting purposes.

Statements of Cash Flows: In November 1987 the Financial Accounting Standards Board issued Statement No. 95, "Statement of Cash Flows." NASD adopted the provisions of the Statement in its 1988 statements and restated the previously reported statement of changes in financial position for 1987.

NOTE B—BUSINESS SEGMENTS

<i>(in thousands)</i>	<i>NASD</i>	<i>NASDAQ</i>	<i>MSI</i>	<i>Consolidated</i>
1988				
Income	\$ 95,845	\$41,184	\$19,093	\$156,027
Expenses, including income taxes	92,202	35,256	16,494	143,857
Net income	\$ 3,643	\$ 5,928	\$ 2,599	\$ 12,170
Total assets	\$112,918	\$51,823	\$12,566	\$175,109
Equity	\$ 87,908	\$40,619	\$10,816	\$138,192
	<i>NASD</i>	<i>NASDAQ</i>	<i>MSI</i>	<i>Consolidated</i>
1987				
Income	\$ 90,364	\$37,392	\$17,115	\$144,777
Expenses, including income taxes	82,318	32,736	14,001	128,961
Net income	\$ 8,046	\$ 4,656	\$ 3,114	\$ 15,816
Total assets	\$110,187	\$45,906	\$ 9,717	\$165,027
Equity	\$84,265	\$34,691	\$ 8,217	\$126,022

Intercompany billings, payables, and receivables have been eliminated from the consolidated financial data.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

NOTE C—LEASES

Data processing, subscriber equipment, and software include the following amounts relating to leases that have been capitalized. The initial terms of the capitalized leases are 36 to 60 months.

<i>September 30 (in thousands)</i>	1988	1987
Data processing equipment	\$9,325	\$9,620
Less accumulated depreciation	1,944	1,769
	\$7,381	\$7,851

Capital lease obligations of \$1,173,000 and \$6,992,000 were incurred by NASD in 1988 and 1987, respectively, in connection with the purchase of data processing equipment.

NASD leases certain office space and equipment in connection with its operations. The majority of these leases contain escalation clauses based on increases in property taxes and building operating costs. Certain of these leases also contain renewal options. Future minimum lease payments under the capital leases and noncancellable operating leases with initial or remaining terms of one year or more consisted of the following at September 30, 1988:

<i>Fiscal Year Ending September 30 (in thousands)</i>	<i>Capital Leases</i>	<i>Operating Leases</i>
1989	\$2,333	\$ 7,684
1990	2,095	7,936
1991	1,871	8,034
1992	1,407	7,856
1993		7,701
Remaining years		44,652
Total minimum lease payments	7,706	83,863
Less: Amount representing interest	723	
Present value of net minimum lease payments	6,983	
Less: Amounts due in one year	1,956	
	\$5,027	\$83,863

Future minimum operating lease commitments will be offset by \$12,539,000 of sublease income. Rent expense for operating leases, net of sublease income, was \$5,164,000 in 1988 and \$3,695,000 in 1987.

NOTE D—RETIREMENT BENEFITS

NASD maintains a noncontributory defined benefit pension plan for the benefit of all eligible employees. The benefits are based on years of service and the employee's average compensation during the highest 60 consecutive months of employment. NASD's funding policy is to contribute annually the minimum requirement under the Internal Revenue Code. In 1988, NASD adopted FASB Statement No. 87, "Employer's Accounting for Pensions." The effect of this adoption was to reduce 1988 pension cost by approximately \$1,106,000. Pension expense for 1987 has not been restated.

The following table sets forth the plan's funded status and amounts recognized in NASD's financial statements at September 30:

<i>(in thousands)</i>	1988	1987
Actuarial present value of benefit obligations: Accumulated benefit obligation, including vested benefits of \$7,355 in 1988 and \$7,449 in 1987	\$10,693	\$10,492
Projected benefit obligation	22,703	18,719
Less plan assets at fair value, primarily common stocks, U.S. government and agency bonds	22,561	18,179
Unfunded projected benefit obligation	142	540
Unrecognized net asset being recognized over 20 years	4,112	1,146
Less unrecognized net loss	3,339	
Accrued pension cost	\$ 915	\$ 1,686
Net pension cost consisted of the following		
Service cost	\$ 2,052	
Interest cost	1,635	
Actual return on plan assets	1,345	
Net amortization	(3,554)	
Net pension cost	\$ 1,478	\$ 2,625

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8 percent and 7.2 percent, respectively, for the year ended September 30, 1988, and 7 percent and 6 percent, respectively, for the year ended September 30, 1987. The expected long-term rate of return on assets was 8.5 percent and 7 percent for 1988 and 1987, respectively.

NASD also maintains two savings plans for employees. Effective January 1, 1989, the two plans will merge. Eligibility for both plans is based on length of service. Participation in the plans is voluntary. NASD makes a matching contribution up to one-half of the first 6 percent of salaries contributed by covered employees. Savings plan expense for the years 1988 and 1987 was \$929,000 and \$786,000, respectively.

NOTE E—INCOME TAXES

The income tax provision for the years ended September 30, 1988 and 1987 consisted of the following:

<i>(in thousands)</i>	1988	1987
Current expense		
Federal	\$1,337	\$2,275
State	384	616
Deferred expense	104	174
	<u>\$1,825</u>	<u>\$3,065</u>

NOTE F—CONTINGENCIES

There are legal proceedings pending against NASD, separately or with others. Management believes, based on the opinion of counsel, that liabilities, if any, arising from these proceedings will not have a material effect on NASD.

REPORT OF INDEPENDENT AUDITORS

Board of Governors
National Association of Securities Dealers, Inc.
Washington, D.C.

We have audited the accompanying consolidated balance sheets of the National Association of Securities Dealers, Inc., and subsidiaries as of September 30, 1988 and 1987, and the related consolidated statements of income and equity and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the National Association of Securities Dealers, Inc. and subsidiaries at September 30, 1988 and 1987, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Whinney

Washington, D.C.
December 19, 1988

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Chicago, Illinois

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Bernard L. Madoff Investment
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President

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NASD, Washington, DC

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Executive Director, Europe
NASDAQ International, Ltd.

C. Richard Justice
NASD, Washington, DC

John T. Wall
NASD, Washington, DC

Frank J. Wilson
NASD, Washington, DC

**Member, NASD Board of Governors*

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President and Chief Executive Officer

C. Richard Justice
Executive Vice President, Automation

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Executive Vice President, Compliance

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NASD

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